



December 1, 2015

Senator Wayne Schmidt
820 Farnum Bldg
P.O. Box 30036
Lansing, MI 48909-7536

Dear Senator Schmidt,

Please offer your serious consideration to the continuation of the tax cap on premium cigars under the Other Tobacco Products (OTP) Tax Code, regulated by Public Act 397 of 1993. As you know, the Senate Commerce Committee will be meeting to consider Senate Bill 476. We at the Michigan Premium Cigar and Pipe Retailers Association (MPCPRA) would like to see the bill approved, in order to permanently remove the sunset clause from the OTP Tax Code.

In 2009, the State of Michigan passed the Dr. Ron Davis Anti-smoking Act. This act, combined with a 32% OTP tax, resulted in a dramatic decrease in the sales of premium cigars in the State of Michigan. Our research indicated that 65% of the cigars smoked in Michigan were purchased on the internet from states with no OTP tax. In 2011 the MPCPRA convinced the legislature to pass a 50 cent tax cap on individual cigar sales. Since passing three years ago, cigar sales have increased more than 40%. This has been accomplished in spite of the smoking ban, and our data indicates that much of this business has been captured from internet sales.

Please note the following considerations in your efforts to approve SB 476:

- The State of Michigan is unable to give us an accurate indication of OTP revenues since the implementation of the 50 cent cap due to the following:
 - The State does not separate tax collection revenues for "non-premium" cigars that are under the cap from "premium" cigars which are effected by the cap.
 - The state does not separate pipe tobacco and roll-your-own cigarette tobacco sales from total OTP revenue figures.

The package industry, which makes up approximately 95% of the cigars sold in Michigan, predominantly fall under the cap. In combination with RYO and pipe tobacco, the tax revenue information will not offer an accurate representation of the impact the cap has had on premium cigar tax revenues. Packaged cigars, RYO and pipe tobacco are industries that have been performing poorly on the national level, and again do not reflect OTP Tax collections from members of the MPCPRA. We have reports that most retailers are paying

more OTP taxes than paid prior to the cap. As a result, we feel the cap has been extremely successful with respect to the premium cigar industry.

There are other taxes which have increased dramatically since the implementation of the tax cap:

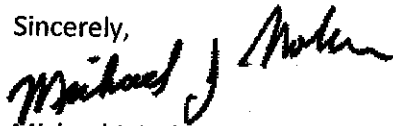
- Sales tax collections from my store have nearly doubled due to the dramatic increase in the number of "premium" cigars sold.
- Payroll and Unemployment taxes due to the need to hire additional staff to accommodate the increase in "premium cigar sales.

Removal of the sunset on the cap is important from a business planning standpoint. Although some retailers have seen expansion and growth, the uncertainty created by a return to a total 32% tax is certainly preventing many retailers from expanding and planning future activities.

Again, we feel it is critical that the sunset provision is removed so that we can continue to increase tax revenues to the state of Michigan. I would be happy to provide you with specific revenue data, including charts and sales figures.

Thank you for your consideration in this matter. If you have any questions or desire more information, I can be contacted directly by phone at (231) 946-2640.

Sincerely,



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